

of subparagraphs (1) and (2) of this paragraph for any taxable year or years, the tax imposed by chapter 1 of the Internal Revenue Code of 1954 shall be recomputed for each such taxable year as if:

(a) The taxpayer had elected to form an aggregation for the taxable year for which the recomputation is required to be made, and

(b) Such aggregation had included all the interests included in the aggregation formed under section 614(c)(1) except those interests which the taxpayer did not own during the taxable year for which the recomputation is required to be made and those interests in respect of which the taxpayer had made no expenditures for exploration, development, or operation before or during the taxable year for which the recomputation is required to be made.

If a recomputation of tax is required to be made for any taxable year in the case of the aggregation of an additional interest to an existing aggregation under section 614(c)(1), such recomputation shall be made as if:

(c) The taxpayer had elected to form an aggregation for the taxable year for which the recomputation is required to be made, and

(d) Such aggregation had included all the interests included in the aggregation formed under section 614(c)(1) (including any interest which the taxpayer had disposed of prior to the date on which the aggregation of the additional interest becomes effective) except those interests which the taxpayer did not own during the taxable year for which the recomputation is required to be made and those interests in respect of which the taxpayer had made no expenditures for exploration, development, or operation before or during the taxable year for which the recomputation is required to be made.

For purposes of this paragraph, any aggregation which is treated as having been formed under subdivisions (a) and (b) or under subdivisions (c) and (d) shall be referred to as the *constructed aggregated property*.

(ii) *Recomputation of depletion allowance.* The taxpayer shall compute the depletion allowance with respect to the constructed aggregated property for

the taxable year for which the recomputation is required to be made. In making this computation, cost depletion for such taxable year shall be computed with reference to the depletion unit for the constructed aggregated property. See paragraph (a) of § 1.611-2. Percentage depletion for such taxable year shall not exceed 50 percent of the taxable income from the constructed aggregated property computed in accordance with § 1.613-5. If a recomputation is required to be made for the same taxable year with respect to any other aggregation or aggregations formed by the taxpayer under section 614(c)(1), the depletion allowance with respect to the other constructed aggregated property or properties shall be similarly computed. If, for a taxable year in respect of which a recomputation is required, the sum of the depletion allowance or allowances as computed under this subdivision is less than the sum of the depletion allowance or allowances actually deducted for such taxable year with respect to all the properties required to be taken into account in making the computation under this subdivision, then the total depletion allowance deducted by the taxpayer for such taxable year shall be reduced by the difference. The taxable income or net operating loss of the taxpayer for such taxable year shall be adjusted to reflect such reduction for purposes of the recomputation of tax. However, if for a taxable year in respect of which a recomputation is required, the sum of the depletion allowance or allowances as computed under this subdivision exceeds the sum of the depletion allowance or allowances actually deducted for such taxable year with respect to all the properties required to be taken into account in making the computation under this subdivision, the recomputation of tax for such taxable year is disregarded for purposes of applying section 614(c)(4) (B), (C), and (D).

(iii) *Effect of recomputation with respect to items based on amount of income.* In making the recomputation of tax under this subparagraph for any taxable year, any deduction, credit, or other allowance which is based upon the adjusted gross income or taxable income of the taxpayer for such year

shall be recomputed taking into account the adjustment required under subdivision (ii) of this subparagraph. For example, if a corporate taxpayer's taxable income is increased under the provisions of such subdivision, then the amount of charitable contributions which may be deducted under the limitation contained in section 170(b)(2) shall be correspondingly increased for purposes of the recomputation. Moreover, the effect that the recomputation of any deduction, credit, or other allowance for a taxable year has on the tax imposed for any other taxable year shall also be taken into account for purposes of the recomputation of tax under this subparagraph. Any change in items of tax preferences (as defined in section 57 and the regulations thereunder) must also be taken into account for purposes of the recomputation under this subparagraph.

(iv) *Effect of recomputation with respect to a net operating loss and a net operating loss deduction.* If the recomputation of tax under this subparagraph for the taxable year for which the recomputation is required to be made results in a reduction of a net operating loss for such year, then the taxpayer shall take into account the effect of such reduction on the tax imposed by chapter I of the Internal Revenue Code of 1954 (or by corresponding provisions of the Internal Revenue Code of 1939) for any taxable year affected by such reduction. If the recomputation of tax for the taxable year for which the recomputation is required to be made results in an increase in taxable income as defined in section 172(b)(2) for such year, then the taxpayer shall take into account the effect of such increase on the tax imposed by chapter I of the Internal Revenue Code of 1954 (or by corresponding provisions of the Internal Revenue Code of 1939) for any taxable year affected by such increase. Furthermore, in making the recomputation of tax for any taxable year for which the recomputation is required to be made, the taxpayer shall take into account any change in the net operating loss deduction for such year resulting from the recomputation of tax for any other taxable year for which a recomputation is required to be made. For provisions relating to the net oper-

ating loss deduction, see section 172 and the regulations thereunder. For rules relating to the effect of the net operating loss deduction on the minimum tax for tax preferences see section 56 and the regulations thereunder and § 1.58-7.

(v) *Determination of increase in tax.* If the taxpayer elects to form an aggregation or aggregations for a taxable year under section 614(c)(1) and if a recomputation of tax is required to be made under this paragraph for any prior taxable year or years, then the taxpayer shall compute the difference between the tax, including the tax imposed by section 56 (relating to the minimum tax for tax preferences), as recomputed under this subparagraph for such prior taxable year or years (and other taxable years affected by the recomputation) and the tax liability previously determined (computed without regard to section 614(c)(4)) with respect to such prior taxable year or years (and other taxable years affected by the recomputation). If the taxpayer is subsequently required to make a recomputation with respect to any taxable year or years for which he has previously made a recomputation, then the taxpayer shall compute the difference between the tax as subsequently recomputed for such taxable year or years (and other taxable years affected by the subsequent recomputation) and the tax as previously recomputed for such taxable year or years (and other taxable years affected by the subsequent recomputation). For treatment of the increase in tax resulting from the recomputation of tax under this subparagraph, see subparagraph (4) of this paragraph.

(4) *Treatment of increase in tax—(i) General rule.* If the taxpayer elects to form an aggregation or aggregations for a taxable year under section 614(c)(1) and if a recomputation of tax is required to be made for any prior taxable year or years, then the total increase in tax resulting from such recomputation determined under subparagraph (3)(v) of this paragraph shall be taken into account in the first taxable year to which the election to form such aggregation or aggregations is applicable and in each succeeding taxable year until the full amount of such total